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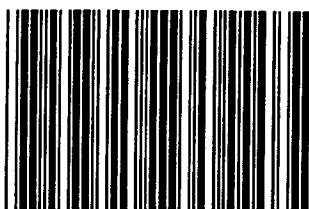
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BAUCUS

SPEECH BY SENATOR MAX BAUCUS
ALUMINUM ASSOCIATION ANNUAL SPRING MEETING
WEDNESDAY, MAY 20, 1987
J.W. MARRIOTT HOTEL
WASHINGTON, D.C.

INTRODUCTION

FIRST, ALLOW ME EXTEND MY THANKS TO BILL
BOURKE, CHAIRMAN OF THE BOARD OF THE ALUMINUM
ASSOCIATION; JOHN BARD, YOUR PRESIDENT; AND BARRY
MEYER, YOUR VICE PRESIDENT FOR GOVERNMENT
RELATIONS FOR INVITING ME TO SPEAK HERE TONIGHT.

LET ME START BY SAYING THAT YOU ARE AN EXCEP-
TIONAL AUDIENCE. TODAY, THE AMERICAN ALUMINUM
INDUSTRY IS TRULY WORLD CLASS -- DUE SOLELY TO
YOUR HARD WORK AND FORESIGHT.

YOUR ACCOMPLISHMENTS ARE IMPRESSIVE:

- YOU'VE TAKEN PAINFUL HITS AND AND KEPT ON FIGHTING FOR YOUR INDUSTRY. INSTEAD OF SITTING IDLY BY AND WATCHING YOUR MARKET SHARE MELT AWAY, YOU ACTED DECISIVELY, AND RESTRUCTURED YOUR INDUSTRY.

- YOU'VE TAKEN GREAT STRIDES IN IMPROVING THE EFFICIENCY OF YOUR PLANTS AND THE PRODUCTIVITY OF YOUR WORKERS.

AND, FINALLY -- AND MAYBE THE MOST IMPORTANT -- YOU'VE TAKEN THE LEAD IN APPLYING NEW TECHNOLOGIES TO THE PRODUCTION OF ALUMINUM. MOODY'S RECENTLY REPORTED THAT "THE NORTH AMERICAN ALUMINUM PRODUCERS ARE THE TECHNOLOGICAL LEADERS IN THEIR INDUSTRY..."

THAT'S GREAT NEWS. AND AS YOU WELL KNOW, IT'S GOOD BUSINESS.

I AM PARTICULARLY PLEASED TO LEARN OF YOUR PROGRESS BECAUSE THE METALS AND MINING INDUSTRIES REMAIN THE CORNERSTONE OF THE ECONOMY IN MY HOME STATE, MONTANA.

BIG SKY COUNTRY IS A PROUD PARTICIPANT IN YOUR INDUSTRY. WE ARE PROUD OF THE QUALITY WORK OF THE COLUMBIA FALLS ALUMINUM PLANT IN NORTHWEST MONTANA.

THE 800 JOBS AND THE \$20 MILLION PAYROLL PROVIDED BY COLUMBIA FALLS ARE EXTREMELY IMPORTANT TO THE ECONOMY OF FLATHEAD COUNTY, AND TO OUR STATE.

NOW, TONIGHT I'VE BEEN INVITED TO SPEAK ABOUT INTERNATIONAL TRADE AND COMPETITIVENESS.

WHAT THAT REALLY MEANS IS THAT I'M HERE TO SPEAK ABOUT OUR FUTURE AS A NATION, AND OUR FREEDOM AS A PEOPLE.

WHAT MAKES AMERICA WHAT IT IS -- ITS ENTERPRISE, ITS INDIVIDUALITY, ITS SPIRIT -- DOES NOT RESIDE HERE IN WASHINGTON.

QUITE THE CONTRARY. HERE IN WASHINGTON WE MERELY GOVERN; IT'S IN THE COUNTRYSIDE WHERE THE PEOPLE CREATE, MANAGE, AND IMPROVE AMERICA.

THUS, OUR FUTURE AS A NATION RESTS NOT ON WHAT I DO IN CONGRESS, OR WHAT YOU DO IN YOUR FACTORIES. IT DEPENDS ON WHAT WE DO **TOGETHER** TO MEET THE CHALLENGES OF TODAY.

I BELIEVE WE CAN MEET THE COMPETITIVE CHALLENGE TOGETHER. IT WON'T BE EASY. WE CAN START BY FOCUSING ON THREE IMPORTANT AREAS: **THE DEFICIT, TRADE, AND OUR FUNDAMENTAL COMPETITIVENESS.**

DEFICIT REDUCTION

THE SINGLE MOST EFFECTIVE WAY FOR THE UNITED STATES TO RESTORE ITS COMPETITIVE EDGE IS TO REDUCE THE FEDERAL BUDGET DEFICIT.

IT NEEDS TO BE DONE. IT MUST BE DONE. IT WILL BE DONE.

IN 1981, WE TOOK A "RIVERBOAT GAMBLE" ON SUPPLY-SIDE ECONOMICS, AND LOST. AS A RESULT WE CREATED A STRUCTURAL DEFICIT THAT PERSISTED NO MATTER HOW FAST THE ECONOMY GREW.

RIGHT NOW WE ARE BORROWING APPROXIMATELY **HALF A BILLION DOLLARS EACH DAY OF THE YEAR** TO PAY FOR THE DEFICIT. TOO MUCH OF THIS MONEY IS COMING FROM FOREIGN INVESTORS.

AMERICA IS NOW NOT ONLY IMPORTING CARS, ELECTRONICS AND OIL, WE'RE IMPORTING MONEY TOO.

HOWEVER, LIKE IT OR NOT, UNTIL WE GET OUR BUDGET UNDER CONTROL, WE WILL BE DEPENDENT ON FOREIGN CAPITAL TO FINANCE OUR TRADE DEFICIT. AND WE CAN'T ATTACK THE TRADE DEFICIT WITHOUT FIRST REDUCING THE BUDGET DEFICIT.

THE JAPANESE ARE BUYING TREASURY NOTES WITH THE DOLLARS WE'VE PAID FOR OUR TOYOTAS, HONDAS, AND SONY'S. IF THOSE JAPANESE BANKERS EVER DECIDE THAT OUR T BILLS AREN'T A GOOD INVESTMENT, INTEREST RATES COULD SOAR TO THE LEVELS WE SAW THEM IN 1982 & 1983. I DON'T NEED TO TELL YOU WHAT THAT WOULD MEAN.

WE'VE ALREADY SEEN DRAMATIC INCREASES IN TREASURY BILL RATES IN THE LAST FEW YEARS.

SO, IT ALL COMES BACK TO THE BUDGET. YET
DESPITE ALL THE TALK ABOUT GRAMM-RUDMAN-HOLLINGS,
THE BUDGET DEBATE HAS BECOME A CYNICAL CHARADE.
WE SPEND MORE TIME TRYING TO PASS THE BLAME THAN
WE DO TRYING PASS LEGISLATION TO SOLVE THE
PROBLEM.

AT A TIME WHEN WE NEED POLITICAL STATESMAN-
SHIP, WE ARE GETTING POLITICAL SHOWMANSHIP.

THIS IS TRUE OF REPUBLICANS AND DEMOCRATS.

UNFORTUNATELY, IT IS ALSO TRUE OF SOME IN THE
AMERICAN BUSINESS COMMUNITY. IN ONE BREATH,
EXECUTIVES SAY THAT REDUCING THE BUDGET DEFICIT
MUST BE OUR NUMBER ONE PRIORITY. IN THE NEXT,
THEY SAY THAT WE SHOULD NOT RAISE TAXES, OR REDUCE
SPENDING PROGRAMS OR TAX EXPENDITURES THEY FAVOR.

WE CAN'T HAVE IT BOTH WAYS. AS A PRACTICAL
MATTER, REAL DEFICIT REDUCTION WILL REQUIRE
COMPROMISE. EVERYTHING MUST BE ON THE TABLE,
ALL THE "SACRED COWS" --- DEFENSE SPENDING,
DOMESTIC ENTITLEMENTS PROGRAMS, AND SELECTIVE TAX
INCREASES.

TRADE LAW REFORM

SECOND, WE NEED A TOUGHER APPROACH ON TRADE.

AS THE TRADE DEFICIT BEGAN TO RISE IN THE EARLY 1980s, A BLIZZARD OF PROTECTIONIST BILLS HIT CAPITOL HILL. THE STORM REACHED ITS PEAK IN LATE 1983, WHEN THE HOUSE PASSED THE DOMESTIC CONTENT BILL.

TODAY, THE STORM OF PROTECTIONISM MAY NO LONGER BE AS VIOLENT, BUT IT'S STILL IS QUITE INTENSE. INSTEAD OF PROTECTIONISM, WE HEAR OF RETALIATION; AND THE TALK IS NOT OF DOMESTIC CONTENT, IT'S OF THE GEPHARDT AMENDMENT.

NOW, SOME MAY CLAIM THAT AMERICA IS BECOMING MORE PROTECTIONIST.

TRUE, WE HAVE RETALIATED MORE AGAINST THE UNFAIR PRACTICES OF OUR TRADING PARTNERS -- THE RECENT RETALIATION AGAINST JAPAN'S FAILURE TO IMPLEMENT THE SEMICONDUCTOR AGREEMENT IS A GOOD EXAMPLE.

BUT WE'RE NOT BECOMING MORE PROTECTIONIST SO MUCH AS MORE PRACTICAL.

AFTER THE WAR, AMERICA HAD A SPECIAL ECONOMIC ROLE TO PLAY. WE COULD AFFORD TO TOLERATE OTHER COUNTRIES' MERCANTILISTIC TRADE BARRIERS. WE COULD AFFORD TO LET OTHER NATIONS DEVELOP ECONOMIES THAT WERE BASICALLY "EXPORT MACHINES."

HOWEVER, THE SITUATION HAS CHANGED. AT ONE TIME, IT MAY HAVE BEEN APPROPRIATE FOR JAPAN TO ADOPT THE "YOSHIDA DOCTRINE" AND BECOME THE ASIAN SWITZERLAND.

BUT MODERN JAPAN IS NOT SWITZERLAND. IT'S THE SECOND LARGEST ECONOMY IN THE FREE WORLD, PRODUCING MORE STEEL, CARS, AND ROBOTS THAN ANYBODY ELSE.

JAPAN HAS NOT YET ASSUMED A POLITICAL ROLE EQUAL TO ITS ECONOMIC ROLE. IT HAS NOT ABANDONED OUTDATED MERCANTILISM. IT HAS NOT REALLY OPENED ITS MARKETS. IN SHORT, IT HAS NOT YET BORNE ITS SHARE OF THE BURDENS OF LEADERSHIP.

TO A LESSER DEGREE, THE SAME IS TRUE OF OUR OTHER MAJOR TRADING PARTNERS -- WEST GERMANY, TAIWAN, AND SOUTH KOREA.

EACH MUST RECOGNIZE THAT THE HALCYON DAYS ARE OVER. FOR A VARIETY OF REASONS, THE U.S. CAN NO LONGER TOLERATE CLOSED MARKETS AND MERCANTILISTIC TRADE PRACTICES.

THE TRADE BILL WINDING ITS WAY THROUGH CONGRESS REFLECTS THIS MORE AGGRESSIVE ATTITUDE. THE BILL IS FIRM, BUT FAIR.

IT DIRECTS OUR TRADE NEGOTIATORS TO TAKE A MORE AGGRESSIVE STAND ON MARKET ACCESS DURING THE URUGUAY ROUND. AMERICAN PRODUCTS CAN'T COMPETE IF THEY DON'T EVEN HAVE THE OPPORTUNITY TO REACH FOREIGN CONSUMERS.

THE BILL ALSO CLASSIFIES INDUSTRIAL TARGETING AS AN UNFAIR TRADING PRACTICE, AND THEREFORE MAKES IT SUBJECT TO OUR TRADE LAWS.

I KNOW THAT MARKET ACCESS AND INDUSTRIAL TARGETING ARE A CONCERN TO YOUR INDUSTRY. I SHARE

YOUR VIEW THAT THE EEC MUST NOT BE ALLOWED TO
CLOSE ITS MARKETS WHILE ITS ALUMINUM INDUSTRY
RESTRUCTURES.

IF YOU MAKE THE BEST ALUMINUM IN THE WORLD AT
THE BEST PRICE, YOU SHOULD BE ABLE TO SELL IT
ANYWHERE YOU WANT.

COMPETITIVENESS

THE THIRD THING WE MUST DO, **WE MUST IMPROVE
OUR FUNDAMENTAL COMPETITIVENESS.**

SINCE 1960, U.S. PRODUCTIVITY HAS CREPT AT AN
ANNUAL RATE OF 2.7%. BRITAIN'S HAS GROWN AT A
RATE OF 3.6%. JAPAN'S JUMPED AT A WHOPPING 8%.
EVERY ONE OF OUR MAJOR TRADING PARTNERS HAS EX-
PERIENCED GREATER GROWTH IN PRODUCTIVITY THAN WE
HAVE.

INCREASING OUR COMPETITIVENESS REQUIRES A
SERIOUS AND LONG-TERM COMMITMENT TO IMPROVING THE

FUNDAMENTALS OF OUR ECONOMY. JUST LOOK AT SOME OF THE FACTS:

- JAPAN GRADUATES TWICE THE NUMBER OF ENGINEERS PER CAPITA THAN THE UNITED STATES.

- U.S. EIGHTH-GRADERS IN 1981-82 SCORED THIRD FROM THE BOTTOM IN MATH PROFICIENCY, WELL BEHIND JAPAN, HUNGARY, FRANCE, CANADA AND ENGLAND.

- IN 1983, THE U.S. PERSONAL SAVINGS RATE WAS 6%. THE JAPANESE PERSONAL SAVINGS RATE WAS 18%, THREE TIMES HIGHER THAN THE U.S. RATE.

- PROFS. DALE JORGENSON OF HARVARD AND ROBERT HALL OF STANFORD ESTIMATE THAT THE REAL COST OF CAPITAL IN JAPAN IN 1984 (LATEST DATA AVAILABLE) WAS ONLY 2 1/2%. IN THE U.S., IT WAS 7 1/2%.

- IN 1955, ABOUT 40% OF NON-AGRICULTURAL PAYROLL EMPLOYEES WERE IN THE GOODS-PRODUCING INDUSTRY (MANUFACTURING, MINING, AND CONSTRUCTION). TODAY, THAT FIGURE IS 25%.

- IN TERMS OF MANUFACTURING PRODUCTIVITY, THE UNITED STATES USED TO ENJOY A TREMENDOUS EDGE OVER OTHER COUNTRIES. NOW, GERMANY, FRANCE, ITALY, JAPAN AND CANADA ARE INCREASING THEIR PRODUCTIVITY MUCH FASTER THAN THE UNITED STATES.

THESE ARE BUT A FEW FACTS, BUT THEY SHARPLY ILLUSTRATE THE NEED FOR THE UNITED STATES TO MAKE MAJOR IMPROVEMENTS IN EDUCATION, LABOR-MANAGEMENT RELATIONS, THE COST OF CAPITAL, AND HOW WE BRING NEW TECHNOLOGY TO MARKET.

EACH OF THESE OBJECTIVES RAISES ISSUES THAT CUT ACROSS TRADITIONAL PARTISAN AND IDEOLOGICAL BOUNDARIES. THEY CUT ACROSS TRADITIONAL CONGRESSIONAL COMMITTEE JURISDICTIONS. THEY REQUIRE DIFFICULT CHANGES IN THE WAY WE OPERATE.

WE WILL NOT RESTORE AMERICA'S INTERNATIONAL COMPETITIVENESS WITH A SINGLE BILL, IN A SINGLE YEAR, OR DURING A SINGLE CONGRESS.

THE PROBLEM SIMPLY DOES NOT LEND ITSELF TO "QUICK FIX" SOLUTIONS.

I AM WORRIED, HOWEVER, ABOUT THE ABILITY OF OUR SOCIETY -- AND MORE SPECIFICALLY OUR POLITICAL SYSTEM -- TO MOUNT THE KIND OF SERIOUS, SUSTAINED EFFORT THAT IS NECESSARY TO DEAL WITH COMPLEX PROBLEMS.

AS BUSINESS LEADERS YOU HAVE YOUR HANDS FULL WITH THE COMPETITION. THE LAST THING YOU NEED IS ONE MORE COMPETITOR -- YOUR OWN GOVERNMENT. FOR AMERICA TO BECOME MORE COMPETITIVE WE MUST DEVELOP SOME MEASURE OF HARMONY BETWEEN BUSINESS AND GOVERNMENT. WE WON'T ALWAYS SEE EYE-TO-EYE, BUT WE DON'T HAVE TO ALWAYS BE GOING HEAD-TO-HEAD EITHER.

WE MUST UNDERSTAND THAT RESTORING AMERICA'S COMPETITIVENESS REQUIRES CONCERTED, LONG-TERM SACRIFICE, EVEN THOUGH THE PAYOFF MAY BE YEARS AWAY. I THINK YOUR INDUSTRY HAS SHOWN THAT THIS CAN BE DONE.

WE MUST RETHINK HOW WE DO BUSINESS, AND WHAT ARE SHORT AND LONG TERM GOALS SHOULD BE.

FOR EXAMPLE, THE DROP IN THE VALUE OF THE U.S. DOLLAR AGAINST THE JAPANESE YEN HAS CREATED AN UNPRECEDENTED OPPORTUNITY FOR AMERICAN BUSINESSES IN JAPAN.

A RECENT ARTICLE IN THE WALL STREET JOURNAL REPORTED ON HOW SOME AMERICAN COMPANIES ARE TRYING TO TAKE ADVANTAGE OF THE HIGH YEN TO INCREASE THEIR MARKET SHARE IN JAPAN BY CUTTING PRICES.

OTHER FIRMS ARE TAKING ADVANTAGE OF THE SITUATION TO INCREASE THEIR PROFITS BY HOLDING THEIR PRICES STEADY.

WITH EITHER STRATEGY, IT CAN BE ARGUED, THE HUNDREDS OF MAJOR AMERICAN COMPANIES IN JAPAN ARE WINNING.

YET MANY JAPANESE OFFICIALS LAY SOME OF THE BLAME FOR OUR TRADE DEFICIT ON U.S. COMPANIES' PREFERENCE FOR PROFITS OVER MARKET SHARE.

THIS FIXATION ON SHORT-TERM PROFITS IS A MAJOR OBSTACLE TO IMPROVING OUR COMPETITIVENESS. AMERICA WILL NOT BECOME TRULY COMPETITIVE UNTIL

MORE OF OUR BUSINESS LEADERS HAVE A CLEARER VISION
OF THE DISTANT HORIZON.

CONCLUSION

IN CONCLUSION, LET ME REFER TO ANOTHER ARTICLE, THIS ONE IN THE NEW YORK TIMES A FEW DAYS AGO.

IT LOOKED AT WHERE THE HIGH YEN HURTS. WHERE THE SWING IN CURRENCIES HAS FORCED JAPANESE SUPPLIERS TO RAISE THEIR PRICES AND THUS ERODED THE COST ADVANTAGE OF IMPORTING FROM JAPAN.

AS I READ IT I REMEMBERED ALL THE CRIES FROM PEOPLE WHO SAID ALL WE NEEDED TO DO TO BECOME MORE COMPETITIVE WITH JAPAN WAS TO GET THE DOLLAR DOWN.

BUT WHAT THE ARTICLE POINTED OUT IS THAT WHAT MAY BE BAD NEWS FOR JAPAN'S ECONOMY MAY NOT NECESSARILY BE GOOD NEWS FOR AMERICA'S. INSTEAD OF LOOKING HOME, COMPANIES -- SUCH AS AMERICAN AUTO MAKERS -- ARE TURNING TO OTHER COUNTRIES WITH

CHEAPER LABOR AND RAPIDLY GROWING MANUFACTURING BASES....KOREA, TAIWAN, SINGAPORE, AND MEXICO.

WHAT THIS POINTS OUT IS THE FACT THAT WHEN IT COMES TO IMPROVING AMERICA'S COMPETITIVENESS, THERE IS ONLY ONE SOLUTION: US.

WE CAN'T RELY ON CHANGES IN EXCHANGE RATES, OR TRADE BILLS, OR EVEN OPEN MARKETS TO MAKE US MORE COMPETITIVE. IT WON'T MEAN A THING IF WE DON'T HAVE THE GOODS.

WE HAVE TO BUILD THINGS BETTER, THINK BETTER, DREAM BETTER, BE BETTER THAN THE REST OF THE WORLD. WE ARE GOING TO HAVE TO FOCUS ON MANY DIFFERENT ASPECTS OF AMERICAN SOCIETY TO RESTORE OUR COMPETITIVE EDGE.

I THINK WE CAN DO IT; I BELIEVE THAT IS THE BEAUTY OF OUR CONSTITUTION AND OUR PEOPLE. YOUR INDUSTRY HAS ALREADY DEMONSTRATED THAT AMERICA CAN BE COMPETITIVE IN THE WORLD MARKET, THAT OUR DESTINY IS WITHIN OUR GRASP.

IF WE WORK TOGETHER.

AS FRANKLIN ROOSEVELT TOLD AN AUDIENCE IN
BUTTE, MONTANA, MORE THAN 50 YEARS AGO:

**"ON ONE SIDE IS CYNICAL AND UNSYMPATHETIC
ACCEPTANCE OF THINGS AS THEY ARE. ON THE OTHER
SIDE IS OUR DETERMINATION, AND OUR FAITH IN THE
POSSIBILITY OF CHANGE."**

THANK YOU, AND GOOD NIGHT.